

## Section 12: Allowable Project Costs



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## General Cost Criteria for Federal Awards

General policies for determining allowable costs are established in 44 CFR 13.22, as follows:



- Grant funds may be used only for:
  - ✓ The allowable costs of the grantees, subgrantees, and cost-type contractors, including allowable costs in the form of payments to fixed-price contractors; and
  - ✓ Reasonable fees or profit to cost-type contractors, but not any fee or profit (or other increment above allowable costs) to the grantee or subgrantee.
- For each kind of organization eligible to apply for Hazard Mitigation Grant Program funds, there is a set of Federal principles for determining allowable costs.

## Different Governing Principles

The various entities eligible to apply HMGP funds are controlled by different sets of governing principles. The table below indicates what resource contains the governing principles for each type of applicant.

**Governing Principles for Allowable Costs**

Applicant	Governing Principle
State, Local, or Native American tribal government	OMB Circular A-87
Private nonprofit organization, other than <ul style="list-style-type: none"> <li>(1) an institution of higher education;</li> <li>(2) a hospital; or</li> <li>(3) an organization named in OMB Circular A-122 as not subject to that circular.</li> </ul>	OMB Circular A-122
Educational institution	OMB Circular A-21

Because the majority of HMGP grants are made to State and local governments and Native American tribal organizations, this Desk Reference will focus on the guidelines in OMB Circular A-87. Please refer to the appropriate circular listed above if the subgrantee is a hospital, educational institution, or private nonprofit organization.

## Section 12: Allowable Project Costs

### **Criteria for State, Local, or Native American Tribal Governments**

To be allowable, costs incurred by State, local, or tribal governments must meet the following general criteria:

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards;
- Conform to any limitations or exclusions set forth in OMB Circular A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items;
- Be allocable to Federal awards under the provisions of OMB Circular A-87;
- Be authorized or not prohibited under State or local laws or regulations;
- Not be included as a cost or used to meet cost-sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation;
- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit;
- Be accorded consistent treatment. A cost may not be assigned to a Federal award as direct cost if any other costs incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost;
- Except as otherwise provided in OMB Circular A-87, be determined in accordance with generally accepted accounting principles;
- Be the net of all applicable credits; and
- Be adequately documented.

### **Reasonable Costs**

The State should consider whether project costs are reasonable as they review the budget within an application, as they monitor the implementation, and when a subgrantee requests budget or scope changes. Reasonable costs, as defined by OMB Circular A-87, (see Job Aid 12-1) are those that do not exceed costs that would be incurred by a prudent person in the same circumstances at the same time. Elements to consider when determining reasonableness of a given cost include:



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- Federal, State, and other laws and regulations;
- Terms and conditions of the Federal award; and
- Market prices for comparable goods or services.

### **Unallowable Costs**

The State will disallow costs that are unreasonable or are not part of the approved scope of work. Therefore, the State will always exercise judgment in its review of costs. Obvious areas of caution include:

- Costs incurred prior to grant approval other than design and technical or feasibility studies that were incurred post disaster;
- Items covered by the subgrantee administrative costs (because such items are not allowable project costs);
- The loss of tax revenue due to the public acquisition of land for open space (which does not meet the criteria for allowable costs); and
- Maintenance of the project after initial implementation (for example, mowing open space, or ensuring hurricane shutters are operable).

## Project-Specific Allowable Costs

Additional governing principles apply to specific types of projects and further determine allowable costs for those types of projects. Three examples include:

- Costs for post-disaster code enforcement;
- Environmental mitigation costs; and
- Acquisition/relocation project costs.

Allowable costs for these types of projects are described below.

## Costs for Post-Disaster Code Enforcement

Only extraordinary code enforcement costs are allowable. Extraordinary code enforcement costs are the costs to ensure mitigation-based codes are implemented during disaster reconstruction after normal costs of the building department are deducted.

Costs might include staffing, equipment purchases, office rental, transportation, supplies, and similar expenses.

Extraordinary costs equal disaster costs minus normal costs, minus cost of fee waivers.

Normal costs can be determined from a monthly average of payroll and office expenses during the most recent 12-month period that does not include Federal, State, or local disaster declarations.

Disaster costs can be determined by the payroll and office expenses during the period of assistance. If the applicant must purchase new equipment, only the equivalent rental cost of this equipment for the period of assistance is considered a disaster cost. The revenues generated by fees for inspections or permits, whether collected or not, must be deducted.

If a community has already received Federal assistance for meeting emergency building inspection needs (to post buildings, determine habitability, etc.), these costs must be deducted in determining extraordinary costs.

The revenues generated by fees for inspections or permits, whether collected or not, must be deducted since this is not an extraordinary cost.



**TIP: See page 11-8 for a discussion of the conditions a State agrees to meet for post-disaster code enforcement projects.**

## Environmental Mitigation Costs

The costs to implement any environmental or historic-preservation mitigation actions required in relation to project approval are allowable costs. These costs may include recordation or relocation of historic structures, Phase III archeological data recovery, protection for endangered species, etc. These costs are treated as project costs and are cost shared.

## Acquisition/ Relocation Project Costs

Eligible costs for real property acquisition and relocation projects depend upon the scope of the project. Below are three examples of typical scopes for such projects and the general costs allowable.

### *Acquisition of Property and Demolition of Structures*

The following costs associated with the acquisition of hazardprone real property and the demolition of structures are allowable:

- Up to pre-event fair market value of the real property (land and structures) either at the time of sale or immediately prior to the disaster event;
- Necessary title search, easement and deed recordation, title insurance, and title transfer fees;
- Legal fees associated with property transfer contract review and conducting the real estate settlement;
- Appraisal costs; and
- Demolition and removal of structures.

### *Acquisition of Property and Relocation of Structures*

The following costs associated with the acquisition of hazardprone property and physical relocation of structures are allowable:

- Up to pre-event fair market value of the real property (land only);
- Necessary title search, easement and deed recordation, title insurance, and title transfer fees;
- Legal fees associated with property transfer contract review and conducting the real estate settlement;
- Appraisal costs;
- Jacking and moving of structure to new site; and
- Necessary individual site preparations including foundation, water, sewer, and utility hookups, but not aesthetic improvements and landscaping, new property acquisition, or public infrastructure and utility development.

### *Additional Award To Relocate*

There may be a significant shortfall between the amount the community pays an owner for his/her damaged residence and the cost of a comparable replacement home in a non-hazardprone location. In exceptional circumstances, the State may allow the community to provide owner-occupants the difference between the two amounts, up to \$22,500 per property. The subgrantee must meet other criteria that concern funding availability, housing availability and impact the project. See Section 11 for further detail.

Job Aid 12-2 provides examples of typical project costs for several project types. It may be useful in identifying allowable costs.



**Job Aid 12-2**



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### Allowable Costs Under OMB Circular A-87

The table below lists categories and examples of allowable and unallowable costs under FEMA's disaster assistance programs. The table is not a complete list, however. For more information about allowable and unallowable administrative costs, refer to Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Native American Tribal Governments. **Note:** These costs are allowable within the total amount of the grant and relevant administrative or management caps. (See Section 13 to calculate caps.) Costs must be reasonable and must apply to grant performance.

COST CATEGORY	EXAMPLES	NOTES/RESTRICTIONS
➔ Advertising	<ul style="list-style-type: none"> <li>✓ Radio, television, and newspaper ads</li> <li>✓ Direct mail campaigns</li> </ul>	When incurred for: <ul style="list-style-type: none"> <li>✓ Recruitment of personnel</li> <li>✓ Procurement of goods and services</li> <li>✓ Advertising costs are <b>not</b> allowable if they are incurred solely to promote the governmental unit</li> </ul>
➔ Alcoholic Beverages		<ul style="list-style-type: none"> <li>✗ Costs for alcoholic beverages are not allowable</li> </ul>
➔ Audit Services	<ul style="list-style-type: none"> <li>✓ Case or project reviews</li> <li>✓ Project inspections</li> </ul>	Provided that the audits: <ul style="list-style-type: none"> <li>✓ Comply with the provisions of the Single Audit Act (see OMB Circular A-128)</li> </ul> <p style="text-align: center;"><b>OR</b></p> <ul style="list-style-type: none"> <li>✓ Have otherwise been required and/or approved by FEMA</li> </ul>
➔ Bad Debts	<ul style="list-style-type: none"> <li>✓ Uncollectible funds</li> </ul>	<ul style="list-style-type: none"> <li>✗ Losses arising from uncollectible amounts and other claims, and related costs, are <b>not</b> allowable</li> </ul>
➔ Bonding Costs	Costs associated with attaining surety bonds for employees and officials	Provided that bonding is in accordance with sound business practice



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### Allowable Costs Under OMB Circular A-87 (Continued)

COST CATEGORY	EXAMPLES	NOTES/RESTRICTIONS
➔ Budgeting	Budget: ✓ Development ✓ Preparation ✓ Presentation ✓ Execution	Allowable
➔ Communications	✓ Telephone ✓ Mail and messenger service	Allowable
➔ Compensation for Personnel	✓ Wages and salaries ✓ Fringe benefits	Provided that compensation is reasonable for the services provided
➔ Donated Services	Volunteered time by: ✓ Technical personnel ✓ Consultants ✓ Skilled and unskilled labor	✗ The value of donated services is not reimbursable as either a direct or an indirect cost  ✓ The value of donated services is allowable to meet cost-sharing or matching requirements
➔ Disbursing Services	Costs associated with the accounts payable function	Allowable
➔ Equipment and Other Capital Expenditures	✓ The net invoice price of equipment, including modifications, attachments, or accessories  ✓ Ancillary charges, including taxes and freight	For nonexpendable items of equipment having: ✓ A useful life of more than 1 year ✓ An acquisition cost of \$5,000 or more  Items of equipment with an acquisition cost of less than \$5,000 are considered supplies



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**Allowable Costs Under OMB Circular A-87 (Continued)**

<b>COST CATEGORY</b>	<b>EXAMPLES</b>	<b>NOTES/RESTRICTIONS</b>
➔ General Government Expenses	<ul style="list-style-type: none"> <li>✓ Salaries and expenses of the Office of the Governor and/or State legislatures, tribal councils, or other local governmental bodies</li> <li>✓ Costs associated with government services normally provided to the general public (e.g., fire and police)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Normally <b>not</b> allowable</li> </ul>
➔ Legal Expenses	<ul style="list-style-type: none"> <li>✓ Professional and/or support staff time</li> <li>✓ Filing fees</li> </ul>	<ul style="list-style-type: none"> <li>✓ Legal expenses required for program administration are allowable</li> <li>✓ Legal expenses for prosecution of claims against the Federal Government are not allowable</li> </ul>
➔ Maintenance, Operation, and Repairs	<ul style="list-style-type: none"> <li>✓ Utilities</li> <li>✓ Insurance</li> <li>✓ Security</li> <li>✓ Janitorial services</li> <li>✓ Equipment repairs</li> </ul>	<p>Allowable if they:</p> <ul style="list-style-type: none"> <li>✓ Keep property in efficient operating condition</li> <li>✓ Do not add to the permanent value of property</li> <li>✓ Are not included in rental charges for space</li> </ul>
➔ Materials and Supplies	<ul style="list-style-type: none"> <li>✓ Stationery</li> <li>✓ General office supplies</li> <li>✓ Equipment with an acquisition cost of less than \$5,000</li> </ul>	<p>Allowable after deducting:</p> <ul style="list-style-type: none"> <li>✓ Cash and/or trade discounts</li> <li>✓ Rebates</li> <li>✓ Other allowances</li> </ul>





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### Allowable Costs Under OMB Circular A-87 (Continued)

COST CATEGORY	EXAMPLES	NOTES/RESTRICTIONS
➔ Motor Pools	Vehicle: ✓ Maintenance ✓ Inspection ✓ Repair services	✓ Allowable if charged to the program at a mileage or fixed rate:  Under HMGP, State travel is only allowable under Administrative Costs.
➔ Public Relations	Activities directed toward: ✓ Maintaining the image of the governmental unit ✓ Promoting understanding and favorable relations with the public	When: ✓ Incurred to communicate with the public and press pertaining to the specific program ✓ Necessary to conduct general liaison with the news media and government public affairs officers to keep the public informed ✗ Public relations costs are <b>not</b> allowable if they are incurred solely to promote the governmental unit
➔ Training	Employee training and development	Allowable to the extent that the training is required for program operation.
➔ Travel	✓ Transportation ✓ Lodging ✓ Subsistence	Provided that: ✓ Employees are traveling on official business ✓ The costs do not exceed the amount normally allowed by the agency in its regular operations ✓ Under HMGP, State travel is only allowable under Administrative Costs



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Job Aid 12-2

### Sample Project Cost Breakdown

Compiling a summary of estimated costs, like the ones shown below, may be useful in identifying eligible project costs.

Cost Breakdown for an Acquisition and Structure Relocation Project	
Item	Unit
Pre-event fair market value of hazardprone site—land only (.2–6.0 acres)	lump sum
Necessary title search, easement and deed recordation, title insurance, and title transfer fees	hourly rate
Legal fees associated with property transfer contract review and conducting the real estate settlement	hourly rate
Appraisal costs	hourly rate
Excavation	cubic yard
Boring for lift beams (under slab)	linear foot
Jacking	foot
Moving operation	lump sum
Foundation (concrete, brick, etc.)	thousand (880 sq. ft)
Water supply (high range for individual well)	lump sum
Sewer hookup (high range for septic tank)	lump sum
Sanitary sewer line 4"–6", in place	linear foot
Water service line ¾"–1", in place	linear foot
Internal/external repair—flooring, painting, etc. (houses to 1,000 sq. ft.)	lump sum
Grading	square foot
Seeding	square foot





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**Sample Project Cost Breakdown (Continued)**

Cost Breakdown for a Bank Stabilization Project	
Item	Unit
Clearing and grubbing	job
Channel excavation	cubic yard
Construct storm outlet	each
Extend aerial sanitary sewer crossing	linear foot
Relocate 18" sanitary sewer	linear foot
Slope stabilization on 2:1 slopes	square yard
Grade control structures	each
Seeding	acre
Property acquisition	square foot
Riprap between drop and existing grade	ton
Fill in channel upstream of drop structure	ton

